

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Calumet Housing Commission	County Keweenaw
Audit Date 6/30/04	Opinion Date 2/18/05	Date Accountant Report Submitted to State: 3/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Anderson, Tackman & Company, PLC

Street Address

Po Box 828 , 201 E. Hughitt

City

Iron Mountain

State

MI

ZIP

49801

Accountant Signature

Date

3-25-05

CALUMET HOUSING COMMISSION
REPORT ON FINANCIAL STATEMENTS
(with additional information)
For the Year Ended June 30, 2004

CALUMET HOUSING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	3-4
Management Discussion and Analysis.....	5-8
Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities.....	10
Statement of Revenues, Expenses, and Change in Net Assets.....	11
Statement of Cash Flows – Proprietary Fund.....	12
Notes to the Financial Statements.....	13-20
Supplemental Information:	
Financial Data Schedule.....	22-25
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With “Government Auditing Standards”.....	26



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Calumet Housing Commission
Calumet, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Calumet Housing Commission as of and for the year ended June 30, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Calumet Housing Commission as of June 30, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated February 18, 2005 on our consideration of the Calumet Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Calumet Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

February 18, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Calumet Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$2,921,775.
- During the year, the Commission's operating revenues totaled \$566,302, or 100% of total revenues, while operating expenses totaled \$498,761 or 100% of total expenses.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at June 30, 2004 increased \$71,846 from June 30, 2003.

Table 1

NET ASSETS

Assets	
Current and other assets	\$ 73,444
Capital assets (net)	<u>2,921,766</u>
Total assets	<u>2,995,210</u>
Liabilities	
Current and other liabilities	<u>73,435</u>
Total liabilities	<u>73,435</u>
Net Assets	
Invested in capital assets, net of related debt	2,921,766
Unrestricted	<u>9</u>
Net Assets	<u>\$2,921,775</u>

Net assets of the Commission stood at \$2,921,775. Unrestricted net business assets were \$9. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2

CHANGE IN NET ASSETS

Revenues:

Program revenues:	
Charges for services	\$ 202,362
Program grants & subsidies	359,613
General revenues:	
Other income	4,200
(Loss) from sale of capital assets	(111)
Unrestricted investment earnings	<u>238</u>
Total revenues	566,302

Program Expenses:

Operating expenses	<u>498,761</u>
Change in net assets	67,541

Net assets – beginning of period	<u>2,854,234</u>
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Net assets – end of period	<u><u>\$2,921,775</u></u>
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BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$566,302. The Commission's average unit months leased on a monthly basis had increased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Commission had \$4,542,725 invested in a variety of capital assets including land, equipment and buildings as follows:

Table 3

CAPITAL ASSETS AT JUNE 30, 2004 Business – Type Activity

Land and improvements	\$ 478,327
Buildings and improvements	3,805,184
Equipment	<u>259,214</u>
Total cost	4,542,725
Less accumulated depreciation	<u>(1,620,959)</u>
NET CAPITAL ASSETS	<u>\$2,921,766</u>

The Commission invested \$135,627 in capital assets during the year ended June 30, 2004.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2004/2005 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Gail Perala, at 1 Park Avenue, Calumet, Michigan 49913, or call 906-337-0005.

CALUMET HOUSING COMMISSION

STATEMENT OF NET ASSETS Proprietary Fund

June 30, 2004

CURRENT ASSETS:

Cash and equivalents	\$ 38,695
Accounts receivable	2,976
Inventories	10,559
Prepaid expenses	<u>21,214</u>

TOTAL CURRENT ASSETS 73,444

NONCURRENT ASSETS:

Capital assets	4,542,725
Less accumulated depreciation	<u>(1,620,959)</u>

NET CAPITAL ASSETS 2,921,766

TOTAL ASSETS \$ 2,995,210

CURRENT LIABILITIES:

Accounts payable	\$ 5,479
Accrued liabilities	<u>67,956</u>

TOTAL CURRENT LIABILITIES 73,435

NET ASSETS:

Investment in capital assets, net of related debt	2,921,766
Unrestricted net assets	<u>9</u>

NET ASSETS \$ 2,921,775

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The accompanying notes to financial statements are an integral part of this statement.

CALUMET HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>			<u>Business-Type Activities</u>
Public Housing	\$ 498,523	\$ 202,362	\$ -	\$ 63,452
BUSINESS-TYPE ACTIVITIES:				
General revenues:				
Unrestricted investment earnings				(111)
Other				4,200
Total general revenues				4,089
Changes in net assets				67,541
NET ASSETS, beginning of year				2,854,234
NET ASSETS, end of year				\$ 2,921,775

The accompanying notes to the financial statements are an integral part of this statement.

CALUMET HOUSING COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS Proprietary Fund

For the Year Ended June 30, 2004

OPERATING REVENUES:

Tenant revenue	\$ 202,362
Program grants-subsidies	359,613
Other income	<u>4,200</u>

TOTAL OPERATING REVENUES 566,175

OPERATING EXPENSES:

Administration	100,539
Tenant services	3,290
Utilities	92,823
Maintenance	181,031
General	39,529
Depreciation	<u>81,549</u>

TOTAL OPERATING EXPENSES 498,761

OPERATING INCOME 67,414

OTHER INCOME (EXPENSES):

Interest income	238
(Loss) on sale of capital assets	<u>(111)</u>

TOTAL OTHER INCOME (EXPENSES) 127

CHANGE IN NET ASSETS 67,541

NET ASSETS, BEGINNING OF YEAR 2,854,234

NET ASSETS, END OF YEAR \$ 2,921,775



The accompanying notes to financial statements are an integral part of this statement.

CALUMET HOUSING COMMISSION

STATEMENT OF CASH FLOWS Proprietary Fund

For the Year Ended June 30, 2004

OPERATING ACTIVITIES:

Cash received from customers	\$ 200,797
Cash received from grants and subsidies	359,613
Cash payments to suppliers for goods and services	(186,750)
Cash payments for wages and related benefits	(214,800)
Cash payments for payment in lieu of taxes	(11,075)
Other receipts	<u>4,200</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>151,985</u>
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CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(131,322)</u>
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NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(131,322)</u>
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INVESTING ACTIVITIES:

Investment income	<u>238</u>
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NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>238</u>
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NET INCREASE IN CASH AND EQUIVALENTS	20,901
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>17,794</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 38,695</u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 67,414
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	81,549
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(1,565)
Decrease (Increase) in prepaid expenses	(324)
Increase (Decrease) in accounts payable	(2,308)
Increase (Decrease) in accrued liabilities	<u>7,219</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 151,985</u>
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The accompanying notes to financial statements are an integral part of this statement.



CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Calumet Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a Board of Commissioners appointed by the City Council.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, "*The Financial Reporting Entity*".

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Calumet Housing Commission nor is the Commission a component unit of another entity.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation

CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenses and the means of financing them. Prior to June 30th, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty cash	\$ 50
Cash in checking	<u>36,645</u>
 TOTAL	 \$ <u>38,695</u>

The Commission's cash and equivalents were fully insured at June 30, 2004.

Cash and equivalents are categorized as follows:

Category 1 – Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Petty cash	\$ 50	\$ -	\$ -	\$ -
Checking account	<u>38,645</u>	<u>-</u>	<u>-</u>	<u>41,328</u>
 TOTAL	 \$ <u>38,695</u>	 \$ <u>-</u>	 \$ <u>-</u>	 \$ <u>41,328</u>



CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS(Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.



CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments are stated at market value.

Investments consisted of a certificates of deposit and were in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificate of deposit	\$ <u>21,214</u>	\$ <u> </u> -	\$ <u> </u> -	\$ <u>21,214</u>

The certificate of deposit was fully insured at June 30, 2004.

NOTE C - CAPITAL ASSETS

A summary of capital assets as of June 30, 2004 is as follows:

	<u>Balance</u> <u>7-1-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6-30-04</u>
Land and improvements	\$ 478,327	\$ -	\$ -	\$ 478,327
Building & improvements	3,673,453	131,731	-	3,805,184
Equipment	<u>258,334</u>	<u>2,970</u>	<u>(2,970)</u>	<u>259,214</u>
	4,410,114	\$ <u>134,701</u>	\$ <u>(2,090)</u>	4,542,725
Accumulated depreciation	(1,541,389)	\$ <u>(81,549)</u>	\$ <u>1,979</u>	(1,620,959)
Net capital assets	\$ <u>2,868,725</u>			\$ <u>2,921,766</u>

Depreciation expense for the year was \$81,549.

CALUMET HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended June 30, 2004 totaled \$566,302 of which \$359,613 or 63.5% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G- PENSION PLAN

The Commission has established a SEP-IRA plan of which the Commission contributes 8% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$9,738.



**SUPPLEMENTAL
INFORMATION**

CALUMET HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

June 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
ASSETS:				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 34,390	\$ 4,305	\$ 38,695
100	Total cash	34,390	4,305	38,695
Accounts and notes receivables:				
126	Accounts receivable- Tenants - Dwelling rents	7,017	-	7,017
126.1	Allowance for doubtful account - Dwelling rents	(4,041)	-	(4,041)
120	Total receivables, net of allowances for doubtful accounts	2,976	-	2,976
Current investments				
131	Investments	21,214	-	21,214
142	Prepaid expenses	10,559	-	10,559
150	TOTAL CURRENT ASSETS	69,139	4,305	73,444
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	478,327	-	478,327
162	Buildings	3,670,785	134,399	3,805,184
163	Furniture, equipment & machinery - dwellings	154,282	-	154,282
164	Furniture, equipment & machinery - administration	104,932	-	104,932
166	Accumulated depreciation	(1,617,400)	(3,559)	(1,620,959)
160	Total fixed assets, net of accumulated depreciation	2,790,926	130,840	2,921,766
180	TOTAL NONCURRENT ASSETS	2,790,926	130,840	2,921,766
190	TOTAL ASSETS	\$ 2,860,065	\$ 135,145	\$ 2,995,210

See accompanying notes to financial statements



CALUMET HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

June 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
LIABILITIES AND EQUITY:				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 5,479	\$ -	\$ 5,479
321	Accrued wages / payroll taxes payable	4,391	-	4,391
322	Accrued compensated absences - current portion	19,413	-	19,413
331	Accounts payable - HUD PHA Programs	-	4,305	4,305
333	Accounts payable - other government	12,089	-	12,089
341	Tenant security deposits	18,057	-	18,057
342	Deferred revenues	3,286	-	3,286
345	Other current liabilities	160	-	160
346	Accrued liabilities - other	6,255	-	6,255
310	TOTAL CURRENT LIABILITIES	69,130	4,305	73,435
354	Accrued compensated absences - non current	-	-	-
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	69,130	4,305	73,435
EQUITY:				
Contributed Capital:				
508.1	Investment in capital assets, net of related debt	2,790,926	130,840	2,921,766
512.1	Unrestricted net assets	9	-	9
513	TOTAL EQUITY	2,790,935	130,840	2,921,775
600	TOTAL LIABILITIES AND EQUITY	\$ 2,860,065	\$ 135,145	\$ 2,995,210

See accompanying notes to financial statements

CALUMET HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended June 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
REVENUE:				
703	Net tenant rental revenue	\$ 198,972	\$ -	\$ 198,972
704	Tenant revenue - other	3,390	-	3,390
705	Total tenant revenue	202,362	-	202,362
706	HUD PHA grants	156,152	69,062	225,214
706.1	Capital grants	-	134,399	134,399
711	Investment income - unrestricted	238	-	238
715	Other revenue	4,200	-	4,200
716	Gain (Loss) on sale of fixed assets	(111)	-	(111)
700	TOTAL REVENUE	362,841	203,461	566,302
EXPENSES:				
Administrative				
911	Administrative salaries	50,852	-	50,852
912	Auditing fees	2,500	-	2,500
914	Compensated absences	1,077	-	1,077
915	Employee benefit contributions- administrative	30,500	-	30,500
916	Other operating- administrative	15,610	-	15,610
	Total Administrative	100,539	-	100,539
Tenant services				
924	Tenant services - other	3,290	-	3,290
Utilities				
931	Water	26,490	-	26,490
932	Electricity	29,096	-	29,096
933	Gas	37,237	-	37,237
	Total Utilities	92,823	-	92,823
Maintenance				
941	Ordinary maintenance and operations - labor	80,711	-	80,711
942	Ordinary maintenance and operations - materials & other	19,327	-	19,327
943	Ordinary maintenance and operations - contract costs	29,333	-	29,333
945	Employee benefit contributions- ordinary maintenance	51,660	-	51,660
	Total Maintenance	181,031	-	181,031

See accompanying notes to financial statements

CALUMET HOUSING COMMISSION

FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended June 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
	General expenses			
961	Insurance premiums	27,683	-	27,683
963	Payments in lieu of taxes	10,678	-	10,678
964	Bad debt - tenant rents	1,168	-	1,168
	Total General Expenses	39,529	-	39,529
969	TOTAL OPERATING EXPENSES	417,212	-	417,212
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(54,371)	203,461	149,090
974	Depreciation expense	78,010	3,539	81,549
900	TOTAL EXPENSES	495,222	3,539	498,761
	Other financing sources (uses)			
1001	Operating transfers in	69,062	-	69,062
1002	Operating transfers out	-	(69,062)	(69,062)
1010	Total other financing sources (uses)	69,062	(69,062)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (63,319)	\$ 130,860	\$ 67,541
	MEMO account information			
1103	Beginning equity	\$ 2,850,856	\$ -	\$ 2,850,856
1104	Prior Period Adjustments, Equity Transfers	\$ 3,398	\$ (20)	\$ 3,378
1120	Unit months available	1,176	-	1,176
1121	Number of unit months leased	1,103	-	1,103

See accompanying notes to financial statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Calumet Housing Commission
Calumet, Michigan

We have audited the financial statements of the business-type activities of the Calumet Housing Commission, as of and for the year ended June 30, 2004, which collectively comprise the Calumet Housing Commission's basic financial statements and have issued our report thereon dated February 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Calumet Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Calumet Housing Commission in a separate letter dated February 18, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calumet Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Calumet Housing Commission, in a separate letter dated February 18, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman Co. P.C.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants
Iron Mountain, Michigan

February 18, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

February 18, 2005

Board of Commissioners
Calumet Housing Commission
Calumet, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Calumet Housing Commission for the year ended June 30, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 18, 2005, on the financial statements of the Calumet Housing Commission.

1. During the review of cash and investments, it was noted that the Commission did not have depository agreements in place with all the banks it does business with.

Recommendation

The Commission should have policies and procedures in place so as to require each bank it does business with to sign a depository agreement with the Commission. The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000.

2. During the review of tenant accounts receivable it was noted that there were several accounts that were delinquent and were over 120 days old.

Recommendation

The Commission should have policies and procedures in place that requires it to take a more proactive approach to collecting its tenant receivables. As soon as a tenant starts to get over 60 days delinquent, the director should begin to take collection steps before the tenant vacates or becomes more delinquent. The Commission should monitor its tenant receivable balances on a monthly basis and monitor all of its delinquent accounts. Approximately \$4,000 of receivables were written-off in December 2004 of old delinquent accounts. This amount is unusually high for most Commissions. Delinquent tenant receivables should not accumulate to that extent.

3. During the audit it was noted that the Commission had received \$4,305 in capital funds in excess of capital funds expensed.

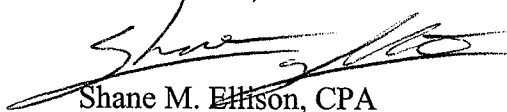
Recommendation

The Commission should monitor its capital funds on a monthly basis and request a reimbursement from HUD only after it has funds obligated. The Commission should not be requesting funds in advance of obligating them. Capital funds should be on a reimbursement basis only.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA
Principal